

HealthSouth Files Restated Results For 2000 to 2002

By CHAD TERHUNE

BIRMINGHAM, Ala.—HealthSouth Corp., continuing to fight its way back from the accounting fraud that led to the criminal trial of company founder Richard M. Scrushy, filed restated financial statements that slashed more than \$1 billion in profit and revenue from the results it originally reported for 2000 to 2002.

The 294-page filing with the Securities and Exchange Commission marked a crucial step by HealthSouth in distancing itself from the scandal that pushed the health-care services provider to the brink of bankruptcy after the fraud was exposed in 2003. Jay Grinney, who became HealthSouth's chief executive in May 2004, said the restatement was a sign of progress in "trying to rebuild this company based on trust, integrity and transparency."

In addition to acknowledging that profit from 2000 to 2002 was overstated by \$1.23 billion and revenue by \$1.87 billion, HealthSouth disclosed that it has received inquiries from parties interested in acquiring its diagnostic-services division. That part of the company, offering magnetic-resonance imaging, X-rays and other services, is facing tough competition from physician-owned diagnostic centers.

In an interview, Mr. Grinney said "no decision has been made" to sell the company's diagnostic unit, but added that a sale is being explored as one way to reduce an uncomfortably high debt load of about \$3.5 billion. The diagnostic operation generated about \$280 million, or 7%, of HealthSouth's 2003 revenue of \$3.96 billion.

Still, it will be difficult for HealthSouth to make a clean break from its past until a jury decides the fate of Mr. Scrushy. Jurors deliberated here for its 20th day yesterday without reaching a verdict on 36 criminal counts against Mr. Scrushy, who was fired as CEO of HealthSouth after the fraud surfaced. He faces conspiracy, securities fraud and one count of falsely certifying HealthSouth's financial statements under the Sarbanes-Oxley Act.

The 52-year-old Mr. Scrushy has said the scheme was carried out by his top lieutenants without his knowledge and that they testified against him in hopes of securing lighter punishment for their own crimes.

Mr. Scrushy has refused to step down from the HealthSouth board, vowing to

Please Turn to Page A6, Column 5

HealthSouth Restates Finances

Continued From Page A3

reclaim his old job. A spokesman said that the HealthSouth founder "intends to pursue all his legal options to secure restoration of everything that was taken from him by the illegal action of the HealthSouth board of directors in terminating his employment."

Mr. Grinney responded yesterday that the company's board "has no intention to bring Mr. Scrushy back as CEO." HealthSouth can't remove Mr. Scrushy from its board without a shareholder vote, which isn't likely until sometime next year after it has filed financial statements for 2004 and 2005.

HealthSouth said its losses for 2000 to 2002 were \$1.02 billion, in contrast to its previously reported profit of \$210 million.

Revenue was \$11.01 billion, or about 15% lower than the \$12.89 billion originally reported by the company.

HealthSouth yesterday reported 2003 results for the first time, saying it had a loss of \$434.6 million on revenue of \$3.96 billion. Those figures reflect the fact that HealthSouth's deteriorating financial condition began to level off after the fraud was exposed in March 2003, with turnaround experts taking charge of the company in mid-2003. The federal government has pegged the accounting fraud at roughly \$2.7 billion from 1996 to 2002.

HealthSouth still faces a raft of shareholder suits and other private litigation related to the accounting scandal that could cost it millions of dollars.

EXHIBIT

11

tabbies